Consolidated Financial Statements

KOKUSAI KOGYO HOLDINGS CO., LTD.
and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

KOKUSAI KOGYO HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Financial Statements

Years ended March 31, 2010 and 2011

Contents

Consolidated Balance Sheets
As of March 31, 2010 and 2011

	March 31,		
	2010	**2011**	**2011**
	(Millions of Yen)		*(Thousands of Euro)*
Assets			
Current Assets:			
Cash and deposits (Note 7) (Note 10)	¥12,690	¥10,538	€ 89,662
Trade notes and accounts receivable(Note 7)	23,023	20,420	173,743
Real estate for sale (Note 7)	6,653	6,766	57,568
Finished goods (Note 7)	2,849	3,937	33,498
Work in process (Note 7)	1,234	324	2,757
Raw materials	22	21	179
Deferred tax assets -current (Note16)	436	261	2,221
Short-term loans receivable	82	1,369	11,648
Other current assets(Note 7)	3,204	855	7,274
Less: Allowance for doubtful accounts	(66)	(91)	(774)
Total current assets	50,127	44,400	377,776
Fixed Assets:			
Property, plant and equipment:			
Buildings and structures	7,189	7,693	65,456
Less: Accumulated depreciation	(3,740)	(4,250)	(36,161)
Buildings and structures, net (Note 7)	3,449	3,443	29,295
Machinery, equipments, and vehicles	402	890	7,573
Less: Accumulated depreciation	(283)	(512)	(4,356)
Machinery, equipments, and vehicles, net	119	378	3,217
Tools, furniture and fixtures	691	650	5,531
Less: Accumulated depreciation	(604)	(537)	(4,569)
Tools, furniture and fixtures, net	87	113	962
Land (Note 7)	5,388	5,551	47,230
Leased assets	929	626	5,326
Less: Accumulated depreciation	(566)	(351)	(2,986)
Leased assets, net	363	275	2,340
Construction in progress	48	-	-
Total property, plant and equipment	9,454	9,760	83,044
Intangible Fixed Assets:			
Goodwill	2,410	2,258	19,212
Leased assets	23	23	196
Software	575	409	3,480
Software in progress	570	980	8,338
Other intangible fixed assets	124	29	247
Total intangible fixed assets	3,702	3,699	31,473
Investments and other assets:			
Investment securities (Note 7) (Note 13)	5,178	4,747	40,390
Long-term loans receivable	719	1,837	15,630
Deferred tax assets—non-current (Note 16)	511	410	3,488
Other investments and assets (Note 7)	3,173	4,369	37,173
Less: Allowance for doubtful accounts	(1,065)	(2,291)	(19,493)
Total investments and other assets	8,516	9,072	77,188
Total fixed assets	21,672	22,531	191,705
Total assets	¥71,799	¥66,931	€ 569,481

Consolidated Balance Sheets
As of March 31, 2010 and 2011

	March 31,		
	2010	**2011**	**2011**
	(Millions of Yen)		*(Thousands of Euro)*
Liabilities and net assets			
Current Liabilities:			
Trade notes and accounts payable	¥5,232	¥4,747	€ 40,390
Short-term loans payable (Note 7) (Note 14)	12,276	12,672	107,819
Current portion of long-term loans payable (Note 7)	2,781	2,708	23,041
Current portion of bonds	720	738	6,279
Lease obligations—current	239	190	1,617
Accrued income taxes	580	264	2,246
Deferred tax liabilities—current (Note 16)	5	-	-
Advances received on uncompleted contracts	1,616	1,064	9,053
Accrued bonuses to employees	604	304	2,587
Allowance for loss on orders	100	59	502
Warranty reserve	45	46	391
Interest rate swap contracts—current	16	15	128
Other current liabilities	2,045	2,213	18,829
Total current liabilities	26,259	25,020	212,882
Non-current Liabilities:			
Bonds	1,290	718	6,109
Long-term loans payable (Note 7) (Note 14)	8,334	8,769	74,611
Lease obligations—non-current	324	208	1,770
Deferred tax liabilities—non-current (Note 16)	726	305	2,595
Provision for retirement benefits (Note 15)	1,404	1,601	13,622
Provision for directors' retirement benefits	142	-	-
Long-term guarantee deposits received	693	704	5,990
Long-term accounts payable - other	159	212	1,804
Interest rate swap contracts—non-current	29	27	230
Other non-current liabilities	6	-	-
Total non-current liabilities	13,107	12,544	106,731
Total liabilities	39,366	37,564	319,613
Net Assets :			
Shareholders' equity:			
Common stock	16,939	16,939	144,125
Capital surplus	15,264	13,682	116,413
Less: Deficit	(2,102)	(2,727)	(23,203)
Less: Treasury stock	(693)	(696)	(5,922)
Total shareholders' equity	29,408	27,198	231,413
Accumulated other comprehensive income :			
Valuation difference on available-for-sale securities	636	508	4,322
Deferred gains or losses on hedges	(37)	(36)	(306)
Foreign currency translation adjustments	33	83	706
Total accumulated other comprehensive income	632	555	4,722
Minority interests	2,393	1,614	13,733
Total net assets	32,433	29,367	249,868
Total liabilities and net assets	¥71,799	¥66,931	€ 569,481

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
For the year ended March 31, 2010 and 2011

	Year ended March 31,		
	2010	2011	2011
	(Millions of yen)		*(Thousands of Euro)*
Net sales	¥49,583	¥50,878	€ 432,894
Cost of sales	38,484	38,778	329,942
Gross profit	11,099	12,100	102,952
Selling, general and administrative expenses :			
Directors' compensations	148	162	1,378
Salaries, allowances, and bonuses	4,990	5,695	48,456
Provision for accrued bonuses	238	100	851
Retirement benefit costs	269	247	2,102
Traveling, transportation, and communication expenses	814	894	7,607
Rental charges	881	940	7,998
Depreciation	138	157	1,336
Research and development expenses	170	116	987
Amortization of goodwill	305	281	2,391
Other Selling, general and administrative expenses	2,855	3,263	27,762
Total Selling, general and administrative expenses	10,808	11,855	100,868
Operating income	291	245	2,084
Non-operating income :			
Interest income	122	148	1,259
Dividend income	71	63	536
Amortization of negative goodwill	18	18	153
Equity in earnings of affiliates	-	323	2,748
Other non-operating income	96	152	1,294
Total non-operating income	307	704	5,990
Non-operating expenses :			
Interest expenses on loans	340	590	5,020
Interest expenses on bonds	57	21	179
Amortization of bond issue costs	9	3	26
Foreign exchange losses	246	396	3,369
Equity in losses of affiliates	454	-	-
Provision for bad debts	23	28	238
Other non-operating expenses	116	154	1,309
Total non-operating expenses	1,245	1,192	10,141
Ordinary loss	(647)	(243)	(2,067)

Consolidated Statements of Income
For the year ended March 31, 2010 and 2011

	Year ended March 31,		
	2010	2011	2011
	(Millions of yen)		*(Thousands of Euro)*
Extraordinary income :			
Reversal of allowance for doubtful accounts	¥7	¥59	€ 502
Gain on sales of fixed assets	-	98	834
Gain on sales of investment securities	375	88	749
Gain on sales of subsidiaries and affiliates' stocks	-	50	425
Gain on negative goodwill	-	587	4,994
Subsidy income	-	250	2,127
Other extraordinary income	-	117	996
Total extraordinary income	382	1,249	10,627
Extraordinary loss :			
Loss on disposal of fixed assets	3	33	281
Loss on sales of fixed assets	19	-	-
Loss on reduction of fixed assets	-	250	2,127
Impairment loss (Note 9)	-	438	3,727
Loss on devaluation of investment securities	254	691	5,879
Provision of allowance for doubtful accounts	-	1,169	9,946
Loss on step acquisitions	-	98	834
Loss by implementation of defect liability	93	61	519
Loss on disaster	-	61	519
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations	-	40	340
Other extraordinary loss	14	57	486
Total extraordinary loss	383	2,898	24,658
Loss before income taxes and minority interests	(648)	(1,892)	(16,098)
Income taxes—current	589	256	2,178
Income taxes—deferred	(913)	43	366
Total income taxes	(324)	299	2,544
Loss before minority interests	-	(2,191)	(18,642)
Minority interests	125	17	145
Net loss	(¥449)	(¥2,208)	(€ 18,787)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended March 31, 2011

	Year ended March 31,	
	2011	**2011**
	(Millions of Yen)	*(Thousands of Euro)*
Loss before minority interests	(¥2,191)	(€ 18,642)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(110)	(936)
Deferred gains or losses on hedges	1	9
Foreign currency translation adjustments	50	425
Share of other comprehensive income of companies accounted for by the equity-method	(19)	(162)
Total other comprehensive income (Note 6)	(78)	(664)
Comprehensive income (loss)	(¥2,269)	(€ 19,306)
Total comprehensive income (loss) attributable to :		
Shareholders of KOKUSAI KOGYO HOLDINGS CO., LTD.	(¥2,284)	(€ 19,433)
Minority interests	¥15	€ 127

See accompanying notes to consolidated financial statement

Consolidated Statements of Changes in Net Assets
For the year ended March 31, 2010

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balance as of March 31, 2009	¥16,939	¥15,264	(¥1,653)	(¥692)	¥29,858
Changes of items during the period					
Net income (loss)			(449)		(449)
Purchase of treasury stock				(1)	(1)
Total changes of items during the period	-	-	(449)	(1)	(450)
Balance as of March 31, 2010	¥16,939	¥15,264	(¥2,102)	(¥693)	¥29,408

	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
	(Millions of yen)					
Balance as of March 31, 2009	¥544	(¥21)	¥2	¥525	¥2,509	¥32,892
Changes of items during the period						
Net income (loss)						(449)
Purchase of treasury stock						(1)
Minority interests in income					125	125
Net changes of items other than those in shareholders' equity	92	(16)	31	107	(241)	(134)
Total changes of items during the period	92	(16)	31	107	(116)	(459)
Balance as of March 31, 2010	¥636	(¥37)	¥33	¥632	¥2,393	¥32,433

Consolidated Statements of Changes in Net Assets
For the year ended March 31, 2011

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance as of March 31, 2010	¥16,939	¥15,264	(¥2,102)	(¥693)	¥29,408
Changes of items during the period					
Net income (loss)			(2,208)		(2,208)
Dificit disposition		(1,582)	1,582		-
Purchase of treasury stock				(2)	(2)
Total changes of items during the period	-	(1,582)	(625)	(2)	(2,209)
Balance as of March 31, 2011	¥16,939	¥13,682	(¥2,727)	(¥696)	¥27,198

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
				(Millions of yen)		
Balance as of March 31, 2010	¥636	(¥37)	¥33	¥632	¥2,393	¥32,433
Changes of items during the period						
Net income (loss)						(2,208)
Purchase of treasury stock						(2)
Purchase of shares of consolidated subsidiaries					(788)	(788)
Sales of shares of consolidated subsidiaries					(7)	(7)
Minority interests in income					17	17
Net changes of items other than those in shareholders' equity	(128)	1	50	(77)	(1)	(78)
Total changes of items during the period	(128)	1	50	(77)	(779)	(3,065)
Balance as of March 31, 2011	¥508	(¥36)	¥83	¥555	¥1,614	¥29,367

Consolidated Statements of Changes in Net Assets
For the year ended March 31, 2011

	Shareholders' equity				
	Common stock	Capital surplus	Deficit	Treasury stock	Total shareholders' equity
	(Thousands of Euro)				
Balance as of March 31, 2010	€ 144,125	€ 129,873	(€ 17,885)	(€ 5,896)	€ 250,217
Changes of items during the period					
Net income (loss)			(18,787)		(18,787)
Dificit disposition		(13,460)	13,460		
Purchase of treasury stock				(17)	(17)
Total changes of items during the period		(13,460)	(5,318)	(17)	(18,804)
Balance as of March 31, 2011	€ 144,125	€ 116,413	(€ 23,203)	(€ 5,922)	€ 231,413

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
	(Thousands of Euro)					
Balance as of March 31, 2010	€ 5,411	(€ 315)	€ 281	€ 5,377	€ 20,361	€ 275,955
Changes of items during the period						
Net income (loss)						(18,787)
Purchase of treasury stock						(17)
Purchase of shares of consolidated subsidiaries					(6,705)	(6,705)
Sales of shares of consolidated subsidiaries					(60)	(60)
Minority interests in income					145	145
Net changes of items other than those in shareholders' equity	(1,089)	9	425	(655)	(8)	(663)
Total changes of items during the period	(1,089)	9	425	(655)	(6,628)	(26,087)
Balance as of March 31, 2011	€ 4,322	(€ 306)	€ 706	€ 4,722	€ 13,733	€ 249,868

Consolidated Statements of Cash Flows
For the year ended March, 31 2010 and 2011

	Year ended March 31		
	2010	2011	2011
	(Millions of yen)		*(Thousands of Euro)*
Cash flows from Operating Activities			
Loss before income taxes and minority interests	(¥648)	(¥1,892)	(€ 16,098)
Depreciation	576	712	6,058
Amortization of goodwill	305	281	2,391
Amortization of negative goodwill	(18)	(18)	(153)
Equity in losses or earnings of affiliates	454	(323)	(2,748)
Increase in allowance for doubtful receivables	18	1,135	9,657
Increase or decrease in accrued bonuses to employees	402	(303)	(2,578)
Interest and dividend income	(193)	(211)	(1,795)
Interest expenses on loans and bonds	397	611	5,199
Amortization of bond issue costs	9	3	26
Foreign exchange losses	246	199	1,693
Net loss or gain on disposal/sales of fixed assets	22	(64)	(545)
Loss on reduction of fixed assets	-	250	2,127
Impairment loss	-	438	3,727
Gain on sales of investment securities	(374)	(88)	(749)
Loss on devaluation of investment securities	254	691	5,879
Gain on sales of subsidiaries and affiliates' stocks	-	(50)	(425)
Gain on negative goodwill	-	(587)	(4,994)
Subsidy income	-	(250)	(2,127)
Loss on step acquistion	-	98	834
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations	-	40	340
Other extraordinary loss	107	61	519
Decrease in allowance for loss on orders	(31)	(41)	(349)
Increase or decrease in warranty reserve	(7)	1	9
Increase in provision for retirement benefits	122	174	1,480
Increase or decrease in provision for directors' retirement benefits	22	(66)	(562)
Increase or decrease in receivables	(510)	3,292	28,010
Increase in inventories	(1,501)	(3,640)	(30,971)
Increase or decrease in payables	433	(805)	(6,849)
Increase in accrued consumption tax	330	140	1,191
Others	(310)	175	1,488
Subtotal	105	(37)	(315)
Interest and dividends received	231	210	1,787
Interest paid	(393)	(610)	(5,190)
Income taxes paid	(414)	(560)	(4,765)
Net cash used by operating activities	(471)	(997)	(8,483)

Consolidated Statements of Cash Flows
For the year ended March, 31 2010 and 2011

	Year ended March 31		
	2010	2011	2011
	(Millions of yen)		*(Thousands of Euro)*
Cash Flows from Investing Activities			
Payment for time deposits	(1,932)	(610)	(5,190)
Proceeds from time deposits	2,799	544	4,629
Payment for acquisition of tangible and intangible fixed assets	(726)	(1,371)	(11,665)
Proceeds from sales of tangible and intangible fixed assets	10	231	1,965
Subsidy income	-	250	2,127
Payment for purchase of securities	(1,000)	(700)	(5,956)
Proceeds from redemption of securities	1,845	700	5,956
Payment for purchase of investment securities	(485)	(692)	(5,888)
Proceeds from sales of investment securities	287	154	1,310
Payment for loans	(7,731)	(3,660)	(31,141)
Proceeds from collection of loans	7,603	2,586	22,003
Payment for purchase of subsidiaries’ stocks resulting in changes in scope of consolidation	(1)	(149)	(1,268)
Proceeds from purchase of subsidiaries’ stocks resulting in changes in scope of consolidation	-	721	6,135
Payment for sale of subsidiaries’ stocks resulting in changes in scope of consolidation	-	(1,285)	(10,933)
Payment for additional purchase of consolidated subsidiaries' stock	(1)	(673)	(5,726)
Others	(11)	58	493
Net cash provided (used) by investing activities	657	(3,896)	(33,149)
Cash Flows from Financing Activities			
Proceeds from short-term loans payable	23,548	18,739	159,440
Repayment of short-term loans payable	(20,512)	(15,902)	(135,302)
Proceeds from long-term loans payable	8,403	4,654	39,598
Repayment of long-term loans payable	(3,187)	(4,339)	(36,918)
Proceeds from issuance of bonds	431	197	1,676
Redemption of bonds	(4,275)	(754)	(6,415)
Payment for purchase of treasury stock	(1)	(1)	(9)
Repayment of lease obligations	(332)	(277)	(2,356)
Net cash provided in financing activities	4,075	2,317	19,714
Effect of exchange rate changes on cash and cash equivalents	(47)	(4)	(34)
Net increase or decrease in cash and cash equivalents	4,214	(2,580)	(21,952)
Cash and cash equivalents at the beginning of the year	7,559	11,773	100,170
Cash and cash equivalents at the end of the year (Note 10)	¥11,773	¥9,193	€ 78,218

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

March 31, 2010 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

KOKUSAI KOGYO HOLDINGS CO., LTD. (the “Company”) and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all of the significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company had 55 subsidiaries and 6 affiliates to which equity method is applied as of March 31, 2010 while 68 subsidiaries and 3 affiliates to which the same method is applied as of March 31, 2011.

(c) Investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities in Japanese GAAP. The Company has no trading and held-to maturity securities. Marketable securities classified as other securities are stated at fair value with any changes in unrealized gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average cost method.

(d) Inventories

Inventories are stated at the lower of cost or market determined by the specific-identification method.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is mainly computed by the declining-balance method.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Leased assets under finance lease transactions other than those that are deemed to transfer ownership of the leased assets are depreciated over the respective lease period by the straight-line method with a zero salvage value.

Finance Lease with ownership transition adopts the same method of fixed assets which the Company owns.

(f) Research and development costs and computer software

Research and development costs are charged to income when incurred. Software for sales purpose is amortized by comparing the amount based on estimated revenue from sales and the amount to be evenly distributed over the residual effective period for sales is estimated as 3 years. Expenditures relating to computer software developed for internal use are charged to income as incurred unless these are deemed to contribute to the generation of future income or cost savings. Software capitalized as assets is amortized by the straight-line method over their useful lives, generally a period of 5 years.

(g) Goodwill and negative goodwill

Goodwill and negative goodwill is amortized using the straight-line method over a reasonable period of years determined by the estimated respective useful lives. In addition, negative goodwill which occurred during the fiscal year ended March 31, 2011 was fully recognized as extraordinary income.

(h) Impairment of fixed assets

Fixed assets are reviewed for impairment in accordance with the accounting standards for impairment of fixed assets whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and the gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the average rates of exchange in effect during the year. Gain or loss on foreign exchange is credited or charged to income in the period in which such gain or loss is recognized for reporting purposes.

The financial statements of the overseas subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Adjustments resulting from translating the foreign currency financial statements are not included in the determination of net income and have been reported as translation adjustments in net assets in the accompanying consolidated balance sheets.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the Company's and its consolidated subsidiaries' historical experience of losses on bad debts and write-offs as a percentage of the balance of total receivables plus an additional amount deemed necessary to cover estimated future losses on specific doubtful accounts.

(k) Accrued bonuses to employees

The amount of employees' bonuses is accrued based on the anticipated bonus payments to employees.

(l) Allowance for loss on orders

Since there is a high likelihood of losses for certain orders on hand as of the end of each fiscal year, an allowance is provided against future losses on order contracts based on reasonable estimation.

(m) Warranty reserve

A warranty reserve for repair service to cover all repair expenses is provided based on the past warranty experience.

(n) Provision for retirement benefits

Allowance for employees' pension and retirement benefits at the balance sheet date is recorded based on the estimated amounts of projected benefit obligation. Prior service cost is amortized by the straight-line method mainly over 10 years which are shorter than the average remaining years of service of the employees. Actuarial differences are amortized by the straight-line method mainly over 5 years, from the fiscal year following the fiscal year in which such differences incur.

(o) Provision for directors retirement benefits

Provision for retirement benefit for directors and corporate auditors represents 100% of such retirement benefit obligations as of the balance sheet date calculated in accordance with policies of certain consolidated subsidiaries. Some subsidiaries have recognized the necessary amounts on year-end as provision for directors retirement benefits by internal rule. However, its balance was written off as the system of directors retirement benefits was abolished, and ¥56 million (€476 thousand) was recognized as long-term accounts payable - other.

(p) Derivative financial instruments

Various derivative transactions have been entered into in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are stated at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

(q) Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants' taxes and enterprise tax.

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statements purposes, which they enter into the determination of taxable income in a different period. The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(r) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other liquid investments with maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(s) Recognition of contract revenue

The Company and certain of its consolidated subsidiaries recognize revenue by applying the percentage-of-completion method for the construction projects with condition that the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction project, method to calculate the percentage of the cost incurred to the estimated total cost (= cost proportion method) shall be applied.

For other construction projects, the completed-contract method shall be applied.

(t) Hedge accounting

1) Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses on derivatives are deferred until the corresponding hedged items are recognized in earnings. However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

2) Hedging instruments and hedged items

Hedging instruments: Interest rate swap
Hedged items : Interest expenses for loans and bonds

3) Hedging policy

The Company and its consolidated subsidiaries use interests rate swap to hedge interest rate fluctuation in accordance with their internal policies and procedures authorized by the board meeting.

4) Assessment method for hedge effectiveness

The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items.

2. EURO AMOUNTS

Solely for the convenience of the reader and as a matter of arithmetic computation only, the amounts in the consolidated financial statements have been translated from Japanese yen into Euro, at the rate of ¥117.53 =

€1, the approximate rate prevailing on March 31, 2011. The translation should not be construed as a representation that Japanese yen could be converted into Euro at this or any other rate.

3. CHANGES OF ACCOUNTING POLICIES

(a) Asset retirement obligations

From the fiscal year ended March 31, 2011, Accounting Standard for Asset Retirement Obligations (Accounting Standards Board of Japan (“ASBJ”) Statement No.18; March 31, 2008) and Guidance on Accounting Standard for Asset Retirement Obligations (“ASBJ”) Guidance No.21; March 31, 2008) were applied. Therefore, operating income decreased by ¥7 million (€60 thousand), ordinary loss increased by ¥7 million (€60thousand) , and loss before income taxes and minority interests increased by ¥47 million (€400 thousand) in the fiscal year ended March 31, 2011.

(b) Business combination

From the fiscal year ended March 31, 2011, Accounting Standard for Business Combination (“ASBJ”) Statement No.21; December 26, 2008), Accounting Standard for Consolidated Financial Statement (“ASBJ”) Statement No.22; December 26, 2008), Accounting Standard for Research & Development Costs (“ASBJ”) Statement No.23; December 26, 2008), Accounting Standard for Business Divestitures (“ASBJ”) Statement No.7; December 26, 2008), Accounting Standard for Equity Method of Accounting for Investments (“ASBJ”) Statement No.16; December 26, 2008) and Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures (“ASBJ”) Guidance No.10; December 26, 2008) were applied.

4. ADDITIONAL INFORMATION

From the fiscal year ended March 31, 2011, Accounting Standard for presentation of Comprehensive Income (Accounting Standards Board of Japan (“ASBJ”) Statement No.25; June 30, 2010) was applied. However, total other comprehensive income and its own sum of the fiscal year ended March 31, 2010 stated foreign currency translation adjustment and its own sum.

5. ASSET RETIREMENT OBLIGATIONS

The Company group recognizes the restoration obligations of the head office facilities under the real estate lease agreements as asset retirement obligations. However a description is omitted since the total of applicable liabilities is immaterial. The total balance of asset retirement obligations as of the year end are reasonably calculated by estimating the rental deposits which cannot be refunded, and recognized the appropriate costs corresponding to the current year.

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6. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated comprehensive income for the Year ended March 31, 2010

Total comprehensive income attribute to:

	(Millions of Yen)
Shareholders of KOKUSAI KOGYO HOLDINGS CO., LTD	(¥342)
Minority interests	151
Total	(191)

	(Millions of Yen)
Valuation difference on available-for-sale securities	¥104
Deferred gains or losses on hedges	(16)
Foreign currency translation adjustments	31
Share of other comprehensive income of companies accounted for by the equity-method	14
Total other comprehensive income	¥133

7. PLEDGED ASSETS

As of March 31, 2011, the following assets of the Company and its consolidated subsidiaries were pledged to secure the repayment of short-term loans payable of ¥5,641 million (€47,996 thousand), the current portion of long-term loans payable of ¥2,353 million (€20,020 thousand), and long-term loans payable of ¥8,286 million (€70,501 thousand).

Pledged Assets

	2010	2011	2011
	(Millions of Yen)		*(Thousands of Euro)*
Cash and deposits	¥764	¥1,119	€ 9,521
Trade notes and accounts receivable	5	58	493
Real estates for sale	4,998	4,362	37,114
Finished goods	1,595	2,067	17,587
Work in Process	646	-	-
Other current assets	55	73	621
Buildings and structures, net	2,905	2,909	24,751
Land	4,345	5,358	45,588
Investment securities	3,429	3,558	30,273
Other investments and assets	1,259	871	7,412
Total	¥20,001	¥20,375	€ 173,360

8. CONTINGENT LIABILITIES

As of March 31, 2011, the Company and its consolidated subsidiaries guarantee the loan of ¥5 million (€43 thousand) to those employees from the Welfare and Medical Service Agency and of ¥71 million (€604 thousand) to those customers, who purchased houses and lots, from the Minato Bank.

9. IMPAIRTMENT

The Company and its consolidated subsidiaries reviewed their fixed assets for impairment. For the year ended March 31, 2011, the Company and its consolidated subsidiaries recorded impairment losses of ¥438 million (€3,727 thousand).

Classification	Place	Contents	Impairment loss	
			(Million of Yen)	*(Thousand of Euro)*
Idle assets	Naha City, Okinawa	Land, etc	¥392	€ 3,335
Business assets	Spain	Other intangible assets	46	392
		Total	¥438	€ 3,727

The Company and its consolidated subsidiaries group their fixed assets into business assets, rental properties and idle assets. As the smallest identifiable group of assets, they identify each business company (branch office in one subsidiary) for business assets, and each individual asset for rental properties and idle assets.

With respect to the Land, etc, the assets were recognized as idle assets and the likelihood of future recoverability of initially projected income was low due to the decision of the abandon of the project related to the development of hotel in Okinawa. With respect to the other intangible assets, the recoverable amount was depreciated. As a result, the book values of these assets were written down to the recoverable amounts and the impairment loss of ¥438 million (€ 3,727 thousand) was recorded for extraordinary loss.

The recoverable amounts are computed based on the appraisal of the real estate when they are measured by the net sales amounts. If they are computed by the value in use, it is computed as zero value.

10. CASH AND CASH EQUIVALENTS

1. Cash and cash equivalents at March 31, 2010 and 2011 consisted of the following:

Cash and Cash Equivalents

	2010	2011	2011
	(Millions of Yen)		*(Thousands of Euro)*
Cash and deposits	¥12,691	¥10,538	€ 89,662
Time deposits categorized as investments and other assets	1,265	959	8,160
Time deposits over three months	(1,618)	(1,734)	(14,754)
Pledged time deposits	(565)	(570)	(4,850)
Cash and cash equivalents	¥11,773	¥9,193	€ 78,218

2. Assets and liabilities of newly consolidated subsidiaries by acquisition of shares

Consolidated fiscal year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)

(1) Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of shares are as follows:

(Kokusai Gersol One Gmbh and two companies)

	(Millions of yen)
Current Assets	¥10
Goodwill	1
Acquisition cost of shares	11
Cash and cash equivallent	(10)
Net payments for acquisiton of shares	¥1

Consolidated fiscal year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

(1) Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, related acquisition cost and net income or expenditure for acquisition of shares are as follows:

(ASNAL Co., Ltd.)

	(Millions of yen)	*(Thousands of Euro)*
Current Assets	¥2,739	€ 23,305
Fixed Assets	1,090	9,274
Current Liabilities	(2,824)	(24,028)
Non-current Liabilities	(597)	(5,080)
Gain on recognition of negative goodwill	(165)	(1,404)
Acquisition cost of shares	243	2,067
Fair value in acquisition by equity method	(182)	(1,548)
Loss on step acquisition	98	834
Acqusition costs of additional acquired shares	159	1,353
Cash and cash equivallent	(880)	(7,488)
Net income for acquisiton of shares	(¥721)	(€ 6,135)

(RGA Energia S.r.l. and twelve companies)

	(Millions of yen)	*(Thousands of Euro)*
Current Assets	¥181	€ 1,540
Goodwill	4	34
Acquisition cost of shares	185	1,574
Cash and cash equivallent	(36)	(306)
Net expenditure for acquisiton of shares	¥149	€ 1,268

3 Assets and liabilities of sold subsidiaries by selling of shares and net expenditure for acquisition of shares are as follows:

Consolidated fiscal year ended Mach 31, 2010 (From April 1, 2009 to March 31, 2010)
None

Consolidated fiscal year ended Mach 31, 2010 (From April 1, 2010 to March 31, 2011)

Net payments, sales value of shares and the details of assets and liabilities by selling the shares of Gosei co., ltd. resulting in excluding from the group of the Company are as follows.

(Gosei Co., Ltd.)

	(Millions of yen)	*(Thousands of Euro)*
Current Assets	¥927	€ 7,887
Fixed Assets	642	5,462
Goodwill	70	596
Current Liabilities	(987)	(8,398)
Non-current Liabilities	(564)	(4,799)
Valuation difference on available-for-sale securities	(8)	(68)
Minority Interests	(7)	(60)
Gain on sales of affiliated company stocks	50	427
Sales value of shares	123	1,047
Cash and cash equivallent	(379)	(3,225)
Net payment for sales of shares	¥256	€ 2,178

Net payments, sales values of shares and the details of assets and liabilities by selling the shares of Kokusai Itasol Holdings Four GmbH and five companies resulting in excluding from the group of the Company are as follows.

(Kokusai Itasol Holding Four GmbH and five companies)

	(Millions of yen)	*(Thousands of Euro)*
Current Assets	¥4,630	€ 39,394
Fixed Assets	29	247
Current Liabilities	(4,690)	(39,905)
Foreign currency translation adjustment	0	0
Gain on sales of subsidiaries and affiliate's stock	31	264
Sales value of shares	-	-
Cash and cash equivalent	(1,029)	(8,755)
Net payment for sales of shares	¥1,029	€ 8,755

11. LEASED ASSETS

(a) Finance Lease exempt from title of ownership

Tangible fixed assets
Tangible fixed assets are, primarily, production equipments (machinery, tools, furniture and fixtures) used in engineering and consulting services.

Intangible fixed assets
Intangible fixed assets are, primarily, software aimed at improving production efficiency in engineering and consulting services.

(b) Finance Lease with ownership transition

The contents of finance lease with ownership transition are mainly production equipment, property, plant and equipment for geographical space information. Lease depreciation adopts the same method for fixed assets which the Company owns.

Future minimum lease payments subsequent to March 31, 2010 and 2011 for non cancelable operating leases are summarized as follows:

:

	2010	2011	2011
	(Millions of Yen)		*(Thousands of Euro)*
Due within one year	¥49	¥47	€ 400
Due after one year	90	44	374
Total	¥139	¥91	€ 774

12. FINANCIAL INSTRUMENTS

From the fiscal year ended March 31, 2010,"Accounting Standard for Financial Instruments"(ASBJ Statement No.10 ,issued by ASBJ on March 10 ,2008) and the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments"(ASBJ Guidance No.19, issued by ASBJ on March 10 ,2008) have been applied.

(1) Current status of financial instruments

(a) Policy for Financial Instruments

Working capital is generally raised through short-term loans from financial institutions. With respect to capital for plants and equipment, the Group makes a determination whether funds on hand are sufficient. If they are insufficient, the Group procures the funds through long-term loans from financial institutions. If a surplus of funds arises, the Group’s basic policy is to raise capital efficiency by repaying loans, but in the case of a temporary surplus, the highest priority is placed on preservation, primarily through term deposits.

(b) Details of and Risks concerning Financial Instruments

Trade notes and accounts receivable, which are operating receivables, entail customer credit risks, but most such receivables are due within one year. These risks are managed by managing payment deadlines for each customer and managing balances and through systems for monitoring the credit status of major trading partners.

Shares held as investment securities entail the risk of changes in market price, but most such securities held are those of businesses with which the Group has business relationships, and market values are regularly monitored.

Most of trade notes and accounts payable, which are operating obligations, are due within one year. Of the

Group’s loans, most of short-term loans are for the procurement of funds relating to operating transactions, while most of long-term loans are for the procurement of funds for capital investments. Loans with variable interest rates involve the risk of changes in interest rates, but of these loans, derivative transactions (interest rate swap transactions) are used as a means of hedging for individual agreements to fix interest payments and to avoid the risks of variations in interests paid. With respect to the methods for evaluating the effectiveness of hedges, the requirements for interest rate swap preferential procedures are satisfied, and consequently, this determination is used to omit evaluations of effectiveness.

Loan receivables in foreign currency which are borrowed by foreign subsidiaries have the fluctuation risk in foreign exchange rates. However, the risk is hedged by exchange contract.

Corporate bonds are a consistent means of raising capital, primarily for operational transactions.

Implementation and management of derivative transactions are performed in accordance with internal regulations specifying transactional authority, and when derivative transactions are conducted, the Group policy is to limit transactions to those for which there is actual demand and to not engage in any speculative transactions whatsoever.

In addition, operating obligations and loans involve liquidity risks, but the Group manages these risks by having each Group company prepare for monthly cash flow plans.

(c) Supplementary Explanation concerning Market Values of Financial Instruments

The market values of financial instruments are determined based on market prices, and in the case of financial instruments without market prices, reasonable estimates are included in the valuations.

(2) Fair value of financial instruments

The balance of book value on consolidated balance sheet and of fair value, and Gross unrealized gain or loss as of March 31, 2010 and 2011, are illustrated below. However, if their fair value is hard to be recognized, those financial instruments are not included.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

The Company monitors the credit worthiness of main customers periodically, as well as the due dates and outstanding balances of individual customers. In addition, the Group makes efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties. The Company believes credit risk of loans is minimal since it enters into loans transactions only with financial institutions which have higher creditability.

(b)Monitoring of market risks (the risks arising from fluctuation in foreign exchange rates, interest rates and others)

The Group identifies the foreign currency exchange risk for each currency. It also enters into forward foreign exchange contracts to mitigate risk of foreign exchange fluctuations, and also mitigates the interest risk on loans payables bearing interest at variable rates by entering into interest swap transactions. For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions and prohibit the use for speculative purpose. Periodical reports including actual transaction data are submitted to top management for their review.

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated.

	As of March 31, 2010		
	Book value	Fair value	Gross unrealized gain or loss
		(Millions of Yen)	
Cash and deposits	12,690	12,690	-
Trade notes and accounts receivable	23,023	23,023	-
Investment securities	4,301	4,258	(43)
Accounts payable	(5,232)	(5,232)	-
Short-term loans payable	(12,276)	(12,276)	-
Bonds	(2,010)	(2,020)	10
Long-term loans payable	(11,115)	(11,112)	(3)
Derivatives	-	-	-

	As of March 31, 2011		
	Book value	Fair value	Gross unrealized gain or loss
		(Millions of Yen)	
Cash and deposits	10,538	10,538	-
Trade notes and accounts receivable	20,420	20,420	-
Investment securities	3,800	3,487	(313)
Trade notes and accounts payable	(4,747)	(4,747)	-
Short-term loans payable	(12,672)	(12,672)	-
Bonds	(1,456)	(1,464)	8
Long-term loans payable	(11,476)	(11,443)	(34)
Derivatives	-	-	-

	As of March 31, 2011		
	Book value	Fair value	Gross unrealized gain or loss
		(Thousands of Euro)	
Cash and deposits	89,662	89,662	-
Trade notes and accounts receivable	173,743	173,743	-
Investment securities	32,332	29,669	(2,663)
Trade notes and accounts payable	(40,390)	(40,390)	-
Short-term loans payable	(107,819)	(107,819)	-
Bonds	(12,388)	(12,456)	68
Long-term loans payable	(97,643)	(97,362)	(289)
Derivatives	-	-	-

(*1) The accounts recognized as liabilities are illustrated as ( ).

(*2) Bonds include those which will be expired within one year.

(*3) Long term loans payable include those will be expired within one year.

Notes:

1. Methods of calculating the market values of financial instruments and matters concerning investment securities and derivatives transactions:

(1) Cash and deposits

Cash and deposits are settled in the short term and the market value is nearly equal to the book value, and consequently they are valued at book value.

(2) Trade notes and accounts receivable

Trade notes and accounts receivable are settled in the short term and the market value is nearly equal to the book value, and consequently they are valued at book value.

(3) Investment securities

Shares are valued at the trading price on closing date.

See 13. Securities for more information concerning marketable securities according to the purpose of the holdings.

(4) Trade notes and accounts payable

Trade notes and accounts payable are settled in the short term and the market value is nearly equal to the book value, and consequently they are valued at book value.

(5) Short-term loans payable

Short-term loans are settled in the short term and the market value is nearly equal to the book value, and consequently they are valued at book value.

(6) Bonds (including bonds that will be expired within one year)

Those corporate bonds with market prices are valued at market price, and those without market prices are valued at present value of the principal and interest after discount by an annual rate taking into account the remaining period until maturity of the bonds and credit risks.

(7) Long-term loans payable (including long-term loans payable that will be expired within one year)

Long-term loans are categorized by the loan type (for each company) and the loan term, and loans with fixed interest rates, variable interest rates that are not linked to market interest rates, and interest rate swap preferential treatment are valued by calculating the current value after discount by interest rate taking into account the case where a similar loan for the total principal and interest were obtained.

2. Financial instruments for which it is extremely difficult to determine fair value

	As of March 31		As of March 31
	2010	2011	2011
	(Millions of Yen)		*(Thousands of Euro)*
Unlisted stock shares	¥877	¥366	€ 3,114

* Net value which are reduced by applicable bonds valued is exhibited as allowance for bad debts are fully recognized onto the bonds in the amount of 580 million yen (€4,935thousand).

3. Planned redemption amounts for monetary assets and short-term investment securities with maturity at March 31, 2010 and 2011.

	As of March 31, 2010			
	Due in a year or less	1-3 years	3-5 years	Due after 5 years
	(Millions of Yen)			
Cash and deposits	¥12,682	-	-	-
Trade notes and accounts receivable	23,023	-	-	-
Total	¥35,705	-	-	-

	As of March 31, 2011			
	Due in a year or less	1-3 years	3-5 years	Due after 5 years
	(Millions of Yen)			
Cash and deposits	¥10,524	-	-	-
Trade notes and accounts receivable	20,420	-	-	-
Total	¥30,944	-	-	-

	As of March 31, 2011			
	Due in a year or less	1-3 years	3-5 years	Due after 5 years
	(Thousands of Euro)			
Cash and deposits	€ 89,543	-	-	-
Trade notes and accounts receivable	173,743	-	-	-
Total	€ 263,286	-	-	-

4. Planned redemption amounts for bonds, long-term loans payable at March 31, 2010 and 2011.

	As of March 31, 2010					
	Due in a year or less	1-2 years	2-3 years	3-4 years	4-5 years	Due after 5 years
	(Millions of Yen)					
Bonds	¥720	¥670	¥250	¥110	¥170	¥90
Long-term loans payables	2,781	2,175	581	444	3,133	2,002
Total	¥3,501	¥2,845	¥831	¥554	¥3,303	¥2,092

	As of March 31, 2011					
	Due in a year or less	1-2 years	2-3 years	3-4 years	4-5 years	Due after 5 years
	(Millions of Yen)					
Bonds	¥738	¥318	¥140	¥170	-	¥90
Long-term loans payables	2,708	2,152	1,062	3,421	294	1,839
Total	¥3,446	¥2,470	¥1,202	¥3,591	¥294	¥1,929

	As of March 31, 2011					
	Due in a year or less	1-2 years	2-3 years	3-4 years	4-5 years	Due after 5 years
	(Thousands of Euro)					
Bonds	€ 6,279	€ 2,706	€ 1,191	€ 1,446	-	766
Long-term loans payables	23,041	18,310	9,036	29,107	2,501	15,647
Total	€ 29,320	€ 21,016	€ 10,227	€ 30,553	€ 2,501	€ 16,413

13. SECURITIES

1. Securities classified as other securities at March 31, 2010 and 2011 are as follows:

	As of March 31, 2010		
	Book value	Acquisition cost	Gross unrealized gain or loss
		(Millions of Yen)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	¥2,222	¥902	¥1,320
Securities (book value does not exceed acquisition cost)	628	1,060	(432)
Total	¥2,850	¥1,962	¥888

	As of March 31, 2011		
	Book value	Acquisition cost	Gross unrealized gain or loss
		(Millions of Yen)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	¥1,993	¥1,084	¥909
Securities (book value does not exceed acquisition cost)	79	87	(8)
Total	¥2,072	¥1,171	¥901

	As of March 31, 2011		
	Book value	Acquisition cost	Gross unrealized gain or loss
		(Thousands of Euro)	
a) Marketable securities			
Securities (book value exceeds acquisition cost)	€ 16,957	€ 9,223	€ 7,734
Securities (book value does not exceed acquisition cost)	672	740	(68)
Total	€ 17,629	€ 9,963	€ 7,666

2. Securities which had been sold during the fiscal year ended March 31, 2010 and 2011

As of March 31, 2010

	Sold amounts	Total amounts of realized gain on sale	Total amounts of realized loss on sale
		(Millions of Yen)	
Securities	¥1,790	¥375	(¥735)
Bonds	200	-	-
Total	¥1,990	¥375	(¥735)

As of March 31, 2011

	Sold amounts	Total amounts of realized gain on sale	Total amounts of realized loss on sale
		(Millions of Yen)	
Securities	¥154	¥88	-
Bonds	-	-	-
Total	¥154	¥88	-

As of March 31, 2011

	Sold amounts	Total amounts of realized gain on sale	Total amounts of realized loss on sale
		(Thousands of Euro)	
Securities	€ 1,310	€ 749	-
Bonds	-	-	-
Total	€ 1,310	€ 749	-

14. DERIVATIVES

Year ended March 31, 2010 (from April 1, 2009 to March 31, 2010)

1 Derivative transactions to which hedge accounting method is not applied.
None

2 Derivative transactions to which hedge accounting method is applied.

Interest rate related transactions

Hedge accounting method	Derivative classification	Hedged item	Contract amount	Contract amount due after one year	Fair value
			As of March 31, 2010		
					(Millions of Yen)
Principle method	Interest rate swaps, fixed rate payment, floating rate receipt	Short term loans payables and bonds	¥1,540	¥1,540	(¥38)
Shortcut method	Interest rate swaps, fixed rate payment, floating rate receipt	Long-term loans payable	4,790	4,790	(180)
		Total	¥6,330	¥6,330	(¥218)

Year ended March 31, 2011 (from April 1, 2010 to March 31, 2011)

1 Derivative transactions to which hedge accounting method is not applied.
Currency-related transactions
Description is abbreviated due to immateriality

2 Derivative transactions to which hedge accounting method is applied.
Interest rate related transactions

Hedge accounting method	Derivative classification	Hedged item	Contract amount	Contract amount due after one year	Fair value
			As of March 31, 2011		
					(Millions of Yen)
Principle method	Interest rate swaps, fixed rate payment, floating rate receipt	Short term loans payables and bonds	¥1,500	¥800	(¥37)
Shortcut method	Interest rate swaps, fixed rate payment, floating rate receipt	Long-term loans payable	4,987	4,145	(153)
		Total	¥6,487	¥4,945	(¥190)

Hedge accounting method	Derivative classification	Hedged item	Contract amount	Contract amount due after one year	Fair value
			As of March 31, 2011		
					(Thousands of Euro)
Principle method	Interest rate swaps, fixed rate payment, floating rate receipt	Short term loans payables and bonds	€ 12,763	€ 6,807	(€ 315)
Shortcut method	Interest rate swaps, fixed rate payment, floating rate receipt	Long-term loans payable	42,431	35,267	(1,302)
		Total	€ 55,194	€ 42,074	(€ 1,617)

Note : method to measure fair value amounts

Fair value amounts are computed based on the prices provided by financial institutions.

15.RETIREMENT BENEFITS

The Company and certain of its consolidated subsidiaries provide both a lump-sum retirement benefit plan and a defined contribution pension plan. Certain of its consolidated subsidiaries contribute to a multi-employer employees' pension fund plan and its contribution to the pension fund plan is included in the below.

The pension fund assets as of March 31, 2009 and 2010 are as follows:

(1) Accumulated funds for the plan

(Millions of Yen)

	2009	*2010*
Pension fund assets	¥ 121,563	¥ 146,031
Projected benefit obligations	172,518	155,853
Difference	(¥ 50,955)	(¥9,822)

(2) Ratio of total salaries of the consolidated subsidiaries to total funds of the plan

(As of March 31, 2009) 5.55%

(As of March 31, 2010) 5.59%

(3) Supplementary explanation

The main reasons behind the difference in amounts described above in (1) are as follows.
The method of depreciation of prior service cost in the current fiscal year is to evenly split principals thereof over a period of 20 years

(Millions ofYen)

	2009	*2010*
Balance of prior service cost	¥ 9,697	¥ 9,196
Deficient amount carried forward	¥ 41,258	¥626

	March 31, 2010
	(Millions of Yen)
a) Benefit obligation	
Retirement benefit obligation	¥1,703
Plan assets	-
Benefit obligation in excess of plan assets	1,703
Unrecognized net actuarial loss	(24)
Unrecognized past service costs	(275)
Net amount recognized	1,404
Prepaid pension costs	-
Provision for retirement benefits	¥1,404
b) Severance and pension cost	
Service costs	¥238
Interest costs	27
Expected return on plan assets	-
Amortization of net actuarial loss	18
Amortization of past service costs	66
Total	349
Paid premiums to defined contribution plan	242
Retirement payment of temporal imposition	40
Employees' severance and pension expenses	631

	March 31, 2011	March 31, 2011
	(Millions of Yen)	*(Thousands of Euro)*
a) Benefit obligation		
Retirement benefit obligation	¥1,872	€ 15,928
Plan assets	51	434
Benefit obligation in excess of plan assets	1,821	15,494
Unrecognized net actuarial loss	(11)	(94)
Unrecognized past service costs	(209)	(1,778)
Net amount recognized	1,601	13,622
Prepaid pension costs	-	-
Provision for retirement benefits	¥1,601	€ 13,622
b) Severance and pension cost		
Service costs	¥268	€ 2,280
Interest costs	27	230
Expected return on plan assets	-	-
Amortization of net actuarial loss	6	51
Amortization of past service costs	66	562
Total	367	3,123
Paid premiums to defined contribution plan	260	2,212
Retirement payment of temporal imposition	4	34
Employees' severance and pension expenses	¥631	€ 5,369

Basis for calculation of retirement benefit obligations and costs

1)	Method of allocating estimated amount of all retirement benefits to be paid at future retirement dates	The straight-line method over the estimated years of service of the eligible employees
2)	Discount rate	2.00%
3)	Expected rate of return on plan assets	-%
4)	Amortization of prior service cost	10 years
5)	Amortization of actuarial gain or loss	5 years

16. INCOME TAXES

Significant components of the deferred tax assets and liabilities as of March 31, 2010 and 2011 are as follows:

	2010	2011	2011
	(Millions of Yen)		*(Thousands or Euro)*
Deferred tax assets :			
Accrued enterprise tax	¥50	¥26	€ 221
Accrued bonus payables for employee	277	138	1,174
Provision for retirement benefits	504	570	4,850
Allowance for doubtful accounts	425	914	7,777
Allowance for loss on orders	41	24	204
Warranty reserve	18	19	162
Excess amounts of depreciation including software	56	66	562
Lump-sum depreciation of assets	246	286	2,433
Loss on valuation of investment securities	207	366	3,114
Loss on valuation of stocks of subsidiaries and affiliates	596	582	4,952
Loss on land revaluation	3,276	3,185	27,099
Impairment loss	669	695	5,913
Tax loss carryforwards	996	1,421	12,092
Others	92	278	2,365
Sub total	7,453	8,570	72,918
Valuation allowance	(6,477)	(7,703)	(65,541)
Total deferred tax assets	¥976	¥867	¥7,377
Deferred tax liabilities :			
Valuation difference on available-for-sale securities	(562)	(349)	(2,969)
Others	(198)	(152)	(1,294)
Total deferred tax liabilities	(¥760)	(¥501)	(€ 4,263)
Net deferred tax assets / liabilities	¥216	¥366	€ 3,114

A reconciliation between the effective statutory tax rate and the effective income tax rates as a percentage of income before income taxes and minority interest for the years ended March 31, 2010 and 2011 is as follows:

	2010	2011
Statutory tax rate	40.5%	40.5%
Increase(decrease)in taxes resulting from :		
Non-deductible entertainment expenses	(3.2%)	(1.1%)
Non-taxable dividends received	1.8%	6.8%
Inhabitants per capita tax	(15.2%)	(5.4%)
Adjustment by revised return	(3.0%)	-
Investment profits or losses by equity method	(28.4%)	6.9%
Goodwill amortizations	(18.0%)	(5.6%)
Elimination on consolidation of dividends received	(10.6%)	(6.7%)
Gain on negative goodwill	-	12.0%
Loss on step acquisition	-	(2.1%)
Valuation allowance	82.6%	(64.4%)
Others	3.4%	3.3%
Effective income tax rates	49.9%	(15.8%)

17. RENTAL PROPERTY

Consolidated fiscal year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)

From the fiscal year ended March 31, 2010, the Accounting Standard for Disclosures about Fair Value of Investment and Rental Property(ASBJ Statement No.20,November 28 ,2008) and the Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (ASBJ Guidance No.23 ,November 28 ,2008) have been applied.

Certain consolidated subsidiaries own office buildings for lease mainly in Tokyo and other areas. The carrying value in the consolidated balance sheet and corresponding fair value of those properties are as follows:

(Millions of Yen)

		Carrying amount	Fair value
March 31 2009	Incresase or decrease	March 31 2010	March 31 2010
¥5,976	(151)	5,825	¥7,114

Notes:
1. Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.
2. Decrease during the fiscal year ended March 31, 2010 primarily represents the depreciation of office buildings for rent.
3. Fair value of rental properties at March 31, 2010 is principally measured based on the real-estate appraisal assessed by the company.

Consolidated fiscal year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

Certain consolidated subsidiaries own office buildings for lease mainly in Tokyo and other areas. The carrying value in the consolidated balance sheet and corresponding fair value of those properties are as follows:

(Millions of Yen)

	Carrying amount		Fair value
March 31 2010	Incresase or decrease	March 31 2011	March 31 2011
¥5,825	(230)	5,595	¥6,546

(Thousands of Euro)

	Carrying amount		Fair value
March 31 2010	Incresase or decrease	March 31 2011	March 31 2011
€ 49,562	(1,957)	47,605	€ 55,696

Notes:
1. Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.
2. Fair value of rental properties at March 31, 2011 is principally measured based on the real-estate appraisal assessed by the company.

18. SEGMENT INFORMATION

From the fiscal year end March 31, 2011, the Accounting Standard for Disclosure about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 March 21, 2008) and the Guidance on Accounting Standards of Segment for Disclosure about Segments of an Enterprise and Related Information (ASBJ Guidance No.20 March 21, 2008) have been applied.

Segment information for the year ended March 31, 2010 has been restated in accordance with such accounting standards for comparative purpose.

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.
A segment produces and installs Geographical space information consulting, Green property, and Green energy.
The accounting policies of the segments are substantially the same as those described in the sufficient accounting policy in Note 1. Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same prices used in transactions with third parties.

	Year ended March 31 , 2010							
	Geographical space information consulting	Green property	Green energy	Total	Others	Grand total	Adjustment	Consolidated financial statement
	(Millions of Yen)							
Ⅰ Net sales								
1)Sales to third parties	¥33,146	¥16,129	¥282	¥49,557	¥26	¥49,583	-	¥49,583
2)Inter-segment sales or transfers	3	853	-	856	66	922	(922)	-
Total sales	33,149	16,982	282	50,413	92	50,505	(922)	49,583
Ⅱ Segment profit or loss	310	582	(583)	309	(18)	291	-	291
Ⅲ Segment assets	33,518	24,627	8,369	66,514	312	66,826	4,973	71,799
Ⅳ Other items								
Depreciation and amoritzation	¥332	¥420	¥111	¥863	¥0	¥863	-	¥863
Increase on fixed assets and intangible fixed assets	¥790	¥34	¥72	¥896	¥0	¥896	-	¥896

	Year ended March 31 , 2011							
	Geographical space information consulting	Green property	Green energy	Total	Others	Grand total	Adjustment	Consolidated financial statement
	(Millions of Yen)							
Ⅰ Net sales								
1)Sales to third parties	¥33,587	¥15,882	¥1,383	¥50,852	¥26	¥50,878	-	¥50,878
2)Inter-segment sales or transfers	6	848	3	857	110	967	(967)	-
Total sales	33,593	16,730	1,386	51,709	136	51,845	(967)	50,878
Ⅱ Segment profit or loss	(35)	570	(289)	246	(1)	245	-	245
Ⅲ Segment assets	30,605	23,791	9,798	64,194	236	64,430	2,501	66,931
Ⅳ Other items								
Depreciation and amoritzation	¥457	¥395	¥123	¥975	¥0	¥975	-	¥975
Increase on fixed assets and intangible fixed assets	¥584	¥442	¥520	¥1,546	¥0	¥1,546	-	¥1,546

	Year ended March 31 , 2011							
	Geographical space information consulting	Green property	Green energy	Total	Others	Grand total	Adjustment	Consolidated financial statement
	(Millions of Euro)							
Ⅰ Net sales								
1)Sales to third parties	€ 285,774	€ 135,131	€ 11,767	€ 432,672	€ 222	€ 432,894	-	€ 432,894
2)Inter-segment sales or transfers	51	7,215	26	7,292	936	8,228	(8,228)	-
Total sales	285,825	142,346	11,793	439,964	1,158	441,122	(8,228)	432,894
Ⅱ Segment profit or loss	(298)	4,850	(2,459)	2,093	(9)	2,084	-	2,084
Ⅲ Segment assets	260,401	202,425	83,366	546,192	2,008	548,200	21,281	569,481
Ⅳ Other items								
Depreciation and amoritzation	€ 3,888	€ 3,361	€ 1,047	€ 8,296	€ 0	€ 8,296	-	€ 8,296
Increase on fixed assets and intangible fixed assets	€ 4,969	€ 3,761	€ 4,424	€ 13,154	€ 0	€ 13,154	-	€ 13,154

Impairment information of fixed assets by each segment

	Year ended March 31 , 2011							
	Geographical space information consulting	Green property	Green energy	Total	Others	Grand total	Adjustment	Consolidated financial statement
	(Millions of Yen)							
Impairment loss	-	¥392	¥46	¥438	-	¥438	-	¥438

	Year ended March 31 , 2011							
	Geographical space information consulting	Green property	Green energy	Total	Others	Grand total	Adjustment	Consolidated financial statement
	(Millions of Euro)							
Impairment loss	-	€ 3,335	€ 392	€ 3,727	-	€ 3,727	-	€ 3,727

19. RELATED PARTY TRANSACTIONS

Year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)
1. Transactions with Related Parties
(1) Transactions between KOKUSAI KOGYO HOLDINGS CO., LTD. and related parties
(a) Parent company and major shareholders (limited to corporations) of KOKUSAI KOGYO HOLDINGS CO., LTD.

(Millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Company sharing the same parent company	Japan Asia Holdings (Japan) Limited	Chiyoda-ku, Tokyo	¥2,641	Investment business	–	Temporary loan Two interlocking officers	Loan of funds (Note 1)	¥7,000	–	–
							Receiving interest on corporate loans (Note 1)	¥75	–	–

Notes:

1. Terms of trade and method of setting trading terms:
   Interest rate was reasonably determined taking into consideration the market rate.

2. Japan Asia Holdings (Japan) Limited was re-categorized from “Parent company” to “Company sharing the same parent company” on March 1, 2010; it is classified as “Parent company” for convenience.

Year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)
1. Transactions with Related Parties
(1) Transactions between KOKUSAI KOGYO HOLDINGS CO., LTD. and related parties
(a) Parent company and major shareholders (limited to corporations) of KOKUSAI KOGYO HOLDINGS CO., LTD.

(Millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Group Limited	Chiyoda-ku, Tokyo	¥3,800	Purely holdings company	Directly owned by 59.4%	Management Temporary loan Three interlocking officers	Paying management fees (Note 1)	¥110	–	–
							Loan of funds	¥2,300	–	–
							Receiving interest on corporate loans (Note 2)	¥59	–	–

(Thousand of Euro)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Group Limited	Chiyoda-ku, Tokyo	€32,332	Purely holdings company	Directly owned by 59.4%	Management Temporary loan Three interlocking officers	Paying management fees (Note 1)	€936	–	–
							Loan of funds	€19,569	–	–
							Receiving interest on corporate loans (Note 2)	€502	–	–

Notes: Terms of trade and method of setting trading terms:
1. Management fees were discussed and decided based on the mutual agreement.
2. Interest rate was reasonably determined taking into consideration the market rate.

2 Transactions between subsidiaries of KOKUSAI KOGYO HOLDINGS CO., LTD. and related parties
(a) Parent company and major shareholders (limited to corporations) of KOKUSAI KOGYO HOLDINGS CO., LTD.

(Millions of Yen)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Group Limited	Chiyoda-ku, Tokyo	¥3,800	Purely holdings company	Indirectly owned by 59.4%	Debt guarantee	Debt guarantee	¥3,500	-	-

(Thousands of Euro)

Type	Name	Address	Capitalization	Nature of operation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Year-end balance
Parent company	Japan Asia Group Limited	Chiyoda-ku, Tokyo	€32,332	Purely holdings company	Indirectly owned by 59.4%	Debt guarantee	Debt guarantee	€29,780	-	-

Notes: Terms of trade and method of setting trading terms:
1. Funds have been borrowed on the condition of the debt guarantee

20. BUSINESS COMBINATIONS

Year ended March 31, 2010 (From April 1, 2009 to March 31, 2010)

Acquisition of Geosol Group through an equity acquisition making it a subsidiary

Purchase price allocation of GEOSOL Beteiligungsgesellschaft mbH and its subsidiaries has been finalized in the year. A revised purchase price in the amount of ¥1,487 million was allocated to other intangibles, other current liabilities, deferred tax liabilities – non-current, and others. The amounts allocated were ¥111 million, ¥562 million, ¥100 million, and ¥12 million, respectively.

Year ended March 31, 2011 (From April 1, 2010 to March 31, 2011)

(a) Acquisition of ASNAL Co., Ltd. through additional share acquisition making it a subsidiary

At meetings held on March 18, 2010, the Board of Directors of the Company decided to enter into a share purchase agreement of ASNAL Co., Ltd. stock .The Company acquired 217,520 additional shares of ASNAL effective of April 1, 2010 making it a subsidiary.

(1) Name and business of acquired company, primary reasons for business combination, date of business combination, legal form of business combination, name of company after business combination, and ratio of voting rights acquired and decision reason acquiring the company.

1. Name and business of acquired company
   Name of acquired company: ASNAL Co., Ltd.
   Business of acquired company: Total construction consulting
2. Primary reasons for business combination
   The acquisition of ASNAL aims to build a new regional development model through the integration of a local oriented business style and the technical support by the Kokusai group and strengthen local customer oriented service capacity. Then, the Company plans to stabilize management foundation under the integrated management of the Kokusai Kogyo Group
3. Date of business combination
   April 1, 2010
4. Legal form of business combination
   Acquisition of shares
5. Name of company after business combination
   The Company acquired ASNAL's shares, but the acquiree’s name was not changed after the acquisition.
6. Ratio of voting rights acquired (including additional, share acquisitions)
   Prior to business combination 34.4%
   Acquired in the business combination 65.5%
   After business combination 99.9%
7. Decision reason acquiring ASNAL
   Since Kokusai Kogyo Co., Ltd., subsidiary of the Company, acquired shares through a cash payment, the Company acquired 99.9% of voting rights.

(2) Period of the operating results of the acquired company included in the accompanying consolidated financial statements

April 1, 2010 to March 31, 2011

(3) Information on acquisition cost

1. Acquisition costs of acquired company and the details

Fair value of common stocks prior to business combination

¥84 million (€715 thousand)

Fair value of additionally acquired common stocks in the business combination

¥159 million (€1,353 thousand)

Total ¥243 million (€2,068 thousand)

2. The difference between acquisition costs and total amount of acquisition transaction costs.

Loss on step acquisition ¥98 million (€834 thousand)

(4) Occurrence of negative goodwill, reason, amortization method and term

1. Occurrence of negative goodwill ¥165 million (€1,404 thousand)

2. Reason:

As net of acquired assets and liabilities exceeded acquisition costs of shares, the difference is recognized as negative goodwill.

3. Amortization method and term: Onetime

(5) Amount and main classes of assets acquired and liabilities assumed at the date of business combination

1. Amount of assets

Current assets	¥2,739 million (€23,304 thousand)
Fixed assets	1,089 million (€9,266 thousand)
Total	3,828 million (€32,570 thousand)

2. Amount of liabilities

Current liabilities	¥2,823 million (€24,019 thousand)
Non-current liabilities	597 million (€5,080 thousand)
Total	3,420 million (€29,099 thousand)

(6) There is no effect since consolidated income statement was prepared regarding beginning of the year as acquisition date.

(b) Additional acquisition of KHC Ltd.

At meetings held on April 16, 2010, the Board of Directors of the Company decided to enter into a share purchase agreement regarding stock of KHC Ltd. The Company acquired 52,355 additional shares of KHC effective April 23, 2010.

(1) Name and business of acquired company, date of business combination, legal form of business combination, name of company after business combination and purpose of the acquisition

1. Name and business of acquired company

Name of acquired company: KHC Ltd.

Business of acquired company: Management of subsidiaries which operate construction and real estate business.

2. Date of business combination

April 23, 2010

3. Legal form of business combination

Acquisition of shares

4. Name of company after business combination

The Company acquired KHC's shares, but the acquiree’s name was not changed after the acquisition.

5. Purpose of the acquisition

The acquisition of KHC aims to further expand Kokusai Kogyo Group's real estate business by pursuing development business focusing on housing in Japan and overseas with the business bases of KHC. Efficient use of tangible/intangible assets owned by Kokusai Kogyo Group will further strengthen marketing competitiveness and the revenue base of KHC and potentially create new businesses. This will lead to enhancement of the Group's corporate value.

(2) Outline of the accounting treatment performed

Accounting transaction was conducted as the transaction under common control based on Accounting Standard for Business Combinations(“ASBJ”) Statement No.21; December 26, 2008 and Revised Guidance on Accounting Standard for Business Combinations and Accounting standard for Business Divestitures (“ASBJ”) Statement No.10 : December 26, 2008.

(3) Information on acquisition costs

1. Acquisition costs of acquired company and details

¥390 million (€3,318 thousand)

(4) Occurrence of negative goodwill, reason, amortization method and term

1. Occurrence of negative goodwill ¥398 million (€3,386 thousand)

2. Reason:

Negative goodwill occurred since acquisition costs to minority shareholders was below the diminution of minority interests.

3. Amortization method and term: Onetime

(b) Sales of GOSEI Co., Ltd.

At meetings held on June 15, 2010, the Board of Directors of the Company decided to sell all shares of GOSEI Co., Ltd..

(1) Name and business of sold company, primary reasons for business combination, date of business combination, legal form of business combination

1. Name and business of sold company

Name of sold company: Gosei Co., Ltd.

Business of sold company: Total construction consultant

2. Major reason of business combination

Collaboration between Kokusai Kogyo Group and Gosei was intended to create a new regional development model through a merger of Gosei’s community-oriented style and Kokusai Kogyo’s technical support, reinforce service provision capabilities to customers with a focus on local governmental bodies, and stabilize the management foundations of both companies through integrated group management.

However, because needs arose within the environmental and energy fields that exceeded Kokusai Kogyo Group’s initial estimates, the Group rearranged its existing businesses and adopted in its medium-term management plan a policy of investing management resources in those two fields and of establishing a green infrastructure on a global scale with the Group’s business at the core.

Discussions were held with Gosei concerning actions to be undertaken under the medium-term management plan, but differences between the Group and Gosei arose concerning the allocation of resources and management methods; and consequently it was determined that conducting business in accordance with independent management policies would be in the best interests of both companies; and it was agreed to terminate the capital tie-up.

3. Date of business combination June 30, 2010
4. Legal transaction stock sale

(2) General description

Amounts of transition profit or loss

¥50 million (€425 thousand)

Amount and main classes of assets sold and liabilities assumed at the date of business combination

1. Amount of assets

Current assets	¥928 million (€7,896 thousand)
Fixed assets	¥712 million (€6,058 thousand)
Total	¥1,640 million (€13,954 thousand)

2. Amount of liabilities

Current liabilities	¥987 million (€8,398 thousand)
Non-current liabilities	¥564 million (€4,799 thousand)
Total	¥1,551 million (€13,197 thousand)

3. Accounting impact

Net of assets and liabilities of sold company, and received costs are recognized as gain on sales of affiliate stocks.

(3) Report segment in which included the business of the sold company.

Geospatial information consultant business

(4). Approximate amounts of profits and loss on consolidated profit and loss

Sales	¥261 million (€2,221 thousand)
Operating loss	¥99 million (€842 thousand)

21. AMOUNTS PER SHARE

	2010	2011	2011
	(Yen)		*(Euro)*
Net income (Loss) - Basic:	(¥12.33)	(¥60.62)	(€ 0.52)
Net assets:	¥824.66	¥762.08	€ 6.48

Basic net loss per share was computed based on the net loss available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.
Amounts per share of net assets were computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year-end.
Net income per share (diluted) was omitted because there was no residual securities existed.

22. SIGNIFICANT SUBSEQUENT EVENTS

Consolidated fiscal year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

1. Acquisition of Additional Shares of Asnal Corporation Co., Ltd. (Asnal) to Make Asnal a Subsidiary

At a meeting held on March 18, 2010, the Board of Directors adopted a resolution approving an agreement for the purchase of shares of Asnal, an affiliate, and 217,520 additional shares were acquired on April 1, 2010. With the acquisition, Asnal became a subsidiary.

(1) Purpose

The acquisition is intended to establish a new regional business development model by integrating Asnal's community-oriented business style with the Kokusai Kogyo Group's technical support, reinforce service provision capabilities with a focus on local governmental bodies, and stabilize the management foundations of both companies through integrated management of the Kokusai Kogyo Group.

(2) Name of the other party to the transaction

Forty-four shareholders, including the employee stock ownership association

(3) Profile of the acquired company

1) Trade name	: Asnal Corporation Co., Ltd.
2) Representative	: President Ryoichi Ukai
3) Head office	: 211-1 Nakacho, Moroe-machi, Kanazawa City, Ishikawa Prefecture, Japan
4) Date of establishment	: October 2008
5) Main business activities	: General construction consulting
6) Number of employees	: Six (consolidated: 264)
7) Capital	: ¥50 million
8) Total number of shares issued	: 332,375

(4) Date of share acquisition

April 1, 2010

(5) Number of shares acquired, total acquisition cost, and holdings before and after the acquisition

1)	Number of shares	:	217,520
2)	Total acquisition amount	:	¥159 million
3)	Number of shares held after acquisition	:	331,975
4)	Percentage of shares held	:	99.88%

(6) Impact on profit and loss

Pursuant to the revised Accounting Standard for Business Combinations (ASBJ Statement No.21), the Company expects to report an extraordinary loss of ¥100 million on step acquisition and extraordinary income of ¥100 million in conjunction with the recognition of negative goodwill. The calculation of market value has not been completed yet, and consequently, purchase price allocation and the amount of goodwill are tentative and the amounts of the effects are subject to change.

2. Additional Acquisition of KHC Ltd. Shares

At a meeting held on April 16, 2010, the Board of Directors adopted a resolution approving an agreement for the purchase of shares of KHC Ltd., a KOKUSAI KOGYO HOLDINGS CO., LTD. subsidiary, and 52,355 shares of KHC Ltd. were acquired on April 23, 2010. A summary of the transaction is set forth below.

(1) Purpose

The additional acquisition of KHC shares is intended to further expand Kokusai Kogyo Group's real estate business by pursuing development business focused on housing in Japan and overseas by making use of the business bases of KHC Group. Efficient use of tangible/intangible assets owned by Kokusai Kogyo Group will further strengthen marketing competitiveness and the revenue base of KHC Group and potentially create new businesses. This will lead to enhancement of the Kokusai Kogyo Group’s corporate value.

(2) Other party to the transaction

One individual shareholder

(3) Profile of the acquired company

1)	Trade name	:	KHC Ltd.
2)	Representative	:	President Tsutomu Kawanishi
3)	Head office	:	2-2, Hanazono-cho, Akashi City, Hyogo Prefecture, Japan
4)	Date of establishment	:	October 1981
5)	Main business activities	:	Management of subsidiaries engaging in the construction or real-estate businesses
6)	Number of employees	:	14 (consolidated: 164)
7)	Capital	:	¥373 million
8)	Total number of shares issued	:	385,455

(4) Date of share acquisition

April 23, 2010

(5) Total number of shares acquired, total acquisition amount, and percentage of holdings after acquisition

1)	Number of shares	:	52,355
2)	Total acquisition amount	:	¥390 million
3)	Number of shares held after acquisition	:	282,055
4)	Percentage of shares held	:	73.17%

(6) Impact on profit and loss

Pursuant to the revised Accounting Standard for Business Combinations (ASBJ Statement No.21), the Company expects to report extraordinary income of ¥400 million from the recognition of negative goodwill.

3. Sale of Shares of Gosei Co., Ltd. (transfer of subsidiary)

At a meeting held on June 15, 2010, the Board of Directors adopted a resolution approving the transfer of all shares of Gosei Co., Ltd. (“Gosei”), a KOKUSAI KOGYO HOLDINGS CO., LTD. subsidiary. A summary of the transaction is set forth below.

(1) Reason for the transfer

Collaboration between Kokusai Kogyo Group and Gosei was intended to create a new regional development model through a merger of Gosei’s community-oriented style and Kokusai Kogyo’s technical support, reinforce service provision capabilities to customers with a focus on local governmental bodies, and stabilize the management foundations of both companies through integrated group management.

However, because needs arose within the environmental and energy fields that exceeded Kokusai Kogyo Group's initial estimates, the Group rearranged its existing businesses and adopted in its medium-term management plan a policy of investing management resources in those two fields and of establishing a green infrastructure on a global scale with the Group's business at the core.

Discussions were held with Gosei concerning actions to be undertaken under the medium-term management plan, but differences between the Group and Gosei arose concerning the allocation of resources and management methods; and consequently it was determined that conducting business in accordance with independent management policies would be in the best interests of both companies; and it was agreed to terminate the capital tie-up.

(2) Profile of the Subsidiary

1)	Trade name	:	Gosei Co., Ltd.
2)	Representative	:	President Kazutoshi Takeuchi
3)	Head office	:	670-1 Shimokatsuma, Takase-cho, Mitoyo City, Kagawa Prefecture, Japan
4)	Date of establishment	:	January 1965
5)	Main business activities	:	General construction consulting
6)	Number of employees	:	165
7)	Capital	:	¥48 million
8)	Total number of shares issued	:	48,000

(3) Financial Performance of the Subsidiary in the Most Recent Fiscal Year

	2009	2010
		(Millions of yen)
Net sales	1,094	1,831
Operating income	13	56
Ordinary income	3	52
Net income	1	1
Net assets	271	275
Total assets	1,996	1,878

* Because of a change in the subsidiary's fiscal year, the fiscal year ended March 31, 2009 was only eight months in duration.

(4) Transferee of the Shares

Gosei Co., Ltd. (the subsidiary in question)

(5) Number of shares transferred, holdings before and after the transfer, and transfer price

1)	Holdings before the transfer	:	28,560 shares (59.5% of issued shares)
2)	Shares transferred	:	28,560 shares (transfer price: ¥123 million)
3)	Holdings after the transfer	:	0 shares (0% of issued shares)

(6) Schedule of the transfer

1)	Board of Directors resolution adopted	:	June 15, 2010

2)	Gosei general shareholders meeting resolution adopted	:	June 23, 2010
3)	Gosei Board of Directors resolution adopted	:	June 23, 2010
4)	Notice of term of acquisition	:	June 23, 2010
5)	Payment date	:	June 30, 2010

(7) Other material agreements

Gosei, the transferee of the shares, adopted resolutions at the general shareholders meeting and Board of Directors meeting held on June 23, 2010 to acquire its shares from shareholders including KOKUSAI KOGYO HOLDINGS, pursuant to the provisions of Article 156 and subsequent articles of the Companies Act. Kokusai Kogyo Holdings requested that Gosei acquire its entire holdings of Gosei shares.

Consolidated fiscal year ended March 31, 2011 (April 1, 2010 to March 31, 20111)

No applicable events

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Report of Independent Auditors

The Board of Directors
KOKUSAI KOGYO HOLDINGS CO., LTD.

We have audited the accompanying consolidated balance sheets of KOKUSAI KOGYO HOLDINGS CO., LTD. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOKUSAI KOGYO HOLDINGS CO., LTD. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The Euro amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into Euro amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 24, 2011